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Budget Resolution Targets and Actual Outcomes

Budget resolution targets, adopted by both Houses of Congress in most years, specify proposed levels of revenues and spending for the upcoming fiscal year. The targets in the 2002 concurrent budget resolution, adopted in May 2001, yielded a proposed budget surplus of \$219 billion. However, the deficit for fiscal year 2002 was \$158 billion, a difference of \$376 billion from the surplus that the budget resolution anticipated.

This appendix analyzes the divergence between the resolution's targets and the actual outcomes for the year. In 2002, actual revenues were \$1,853 billion, or about \$317 billion lower than expected for the year. Although tax legislation reduced revenues by slightly more than the resolution anticipated, the weak economy and other factors accounted for almost all of the difference in revenues. Total outlays, at \$2,011 billion, ended up higher than anticipated by \$59 billion—primarily because appropriations were higher than the budget resolution assumed. That increase was largely the consequence of funding provided in response to the terrorist attacks of September 11, 2001.

Elements of the Analysis

The budget resolution is a concurrent resolution adopted by both Houses of Congress that sets forth the Congressional budget plan over five or more fiscal years. The resolution consists of targets for revenues, spending, the surplus or deficit, and debt held by the public. The budget

resolution does not itself become law; instead, it is implemented through subsequent legislation, including appropriation acts and changes in the laws that affect revenues and spending, which are sometimes in response to reconciliation instructions that are included in the resolution. The targets established in the budget resolution are generally enforced through procedural mechanisms set out in the Congressional Budget and Impoundment Control Act of 1974.

For this analysis, the differences between the levels specified in the budget resolution and the actual outcomes are allocated among three categories: policy, economic, and technical. Although those categories help explain the discrepancies, the divisions are inexact and necessarily somewhat arbitrary.

Differences attributed to policy derive from enacted legislation that was not anticipated in the resolution (such as the legislation addressing terrorism) or legislation that was estimated to cost a different amount than the resolution assumed. Differences attributed to policy may also reflect lawmakers' failure to enact legislation that the budget resolution assumed would pass. To identify such differences arising from legislation, the Congressional Budget Office (CBO) normally uses the cost estimates that it prepared at the time the legislation was enacted. (To the extent that the actual budgetary impact is different from what CBO estimated, that difference is characterized as a technical change.)

A key element in preparing the budget resolution is forecasting how the economy will perform in the upcoming fiscal year. Ordinarily, the Congress adopts the most recent economic assumptions published by CBO. However, in seven of the years since 1980, the Congress chose to use a different forecast (generally, the Administration's, published by the Office of Management and Budget).¹

The forecast for the budget resolution is usually made more than nine months before the fiscal year begins. Forecasting the economy is always an uncertain endeavor, and almost invariably, the economy's actual performance differs from the forecast. Nevertheless, every resolution is based on the forecast's assumptions about numerous economic variables—mainly, gross domestic product (GDP), taxable income, unemployment, inflation, and interest rates. Those assumptions are used to estimate revenues, spending for benefit programs, and net interest. In CBO's analysis, differences that can be linked directly to the agency's economic forecast are labeled economic. (Other differences that might be tied to economic performance, such as changes to estimates of capital gains realizations or distributions from retirement plans, are categorized as technical.)

In analyzing the deviation between budget resolution targets and outcomes, CBO cumulates differences that arise from changes in the economic forecast since the time that the resolution was completed. But CBO does not subsequently adjust that calculation, even though revisions to data about GDP and taxable income continue to trickle in over a number of years.

Technical differences between the budget resolution targets and actual outcomes are those variations that do not arise directly from legislative or economic sources as categorized. The largest dollar effects of technical differences are concentrated in two areas: on the revenue side of the budget and among the government's open-ended commitments, such as entitlement programs. In the case of revenues, technical differences stem from a variety of factors,

including changes in administrative tax rules, differences in the sources of taxable income that are not captured by the economic forecast, and changes in the relative amounts of income taxed at the various rates. In the case of entitlement programs, factors such as an unanticipated change in the number of beneficiaries, unforeseen utilization of health care services, changes in farm commodity prices, or new regulations can produce technical differences.

Comparing the Budget Resolution and Actual Outcomes for Fiscal Year 2002

The budget resolution for 2002 adopted the economic assumptions that CBO published in January 2001. Using those assumptions and incorporating policy changes, the resolution established the following targets for the year: total revenues of \$2,171 billion, outlays of \$1,952 billion, and a surplus of \$219 billion (*see Table B-1*). Ultimately, revenues were lower by \$317 billion, and outlays were higher by \$59 billion, resulting in a deficit that was \$376 billion lower than the surplus anticipated in the resolution. Technical factors, mostly on the revenue side, accounted for more than half of the difference (\$201 billion), and economic factors accounted for about a third (*see Table B-2*).

Differences Arising from Policy Changes

The budget resolution incorporated only a few policy changes that would have significantly affected the bottom line for 2002. Some of those proposals were later enacted (although sometimes at different levels than originally envisioned), one such proposal was not enacted, and some legislation was enacted that was not included in the resolution. In total, policy actions reduced the surplus by about \$56 billion from the amount assumed in the budget resolution. Most of that amount (\$46 billion) was on the outlay side of the budget.

The 2002 resolution assumed that discretionary outlays would remain near the level projected in CBO's baseline (\$683 billion). In actuality, budget authority was \$73 billion higher than anticipated in the resolution, resulting in \$52 billion more in outlays. Much of that amount stemmed from costs incurred as a result of the terrorist attacks of September 11, 2001. Outlays in 2002 for almost all budget functions turned out higher than provided

1. The Congress used the Administration's forecast in the resolutions for fiscal years 1982, 1986, 1989, 1990, and 1992. The budget resolutions for fiscal years 1983 and 1991 were based on assumptions developed by the budget committees' staff.

Table B-1.**Comparison of Budget Resolution Targets and Actual Budget Totals for 2002**

(In billions of dollars)

	Budget Resolution	Actual Budget Totals	Actual Minus Budget Resolution
Revenues	2,171	1,853	-317
Outlays	1,952	2,011	59
Surplus or Deficit (-)	219	-158	-376

Sources: Congressional Budget Office using data from House Con. Res. 83, Concurrent Resolution on the Budget for Fiscal Year 2002, adopted May 10, 2001; Office of Management and Budget.

Notes: The figures in the table include revenues and outlays of the Social Security program and the Postal Service, which are off-budget.

These comparisons differ from those in the chapters of this volume, where differences are measured relative to CBO's baseline projections.

for in the resolution; nearly 60 percent of the excess went to defense spending.

Two mandatory spending proposals with noticeable budgetary effects were included in the resolution: a farm bill, which was enacted, and legislation boosting health care spending for the uninsured (which was not acted upon). The Farm Security and Rural Investment Act of 2002 (Public Law 107-171) increased outlays by an estimated \$2 billion in 2002 (and will increase them by about \$80 billion from 2002 to 2011). The legislation providing health care for the uninsured had an anticipated cost of \$8 billion in 2002—an amount that was incorporated into the resolution but that did not translate into outlays since the legislation did not pass.

Two tax laws also increased mandatory spending. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), anticipated in the budget resolution, resulted in increased spending on refundable tax credits by \$6 billion in 2002. The Job Creation and Worker Assistance Act of 2002 (P.L. 107-147)—commonly referred to as the economic stimulus package—extended unemployment benefits for individuals at a cost of about \$8 billion in 2002. Altogether, policy changes reduced mandatory spending by \$1 billion from the level assumed in the budget resolution.

On the revenue side of the budget, the resolution assumed that the President's proposed tax cut would be passed and

would reduce revenues by about \$65 billion in 2002. However, the enacted tax law, EGTRRA, resulted in a smaller reduction, estimated at \$31 billion, for that year. The Congress and the President also enacted tax legislation that the budget resolution did not anticipate. Public Law 107-147 further eroded revenues by about \$43 billion.

Differences Arising from Economic Factors

Overall, the economic assumptions underlying the 2002 budget resolution proved to be optimistic. In particular, because of economic factors, revenues turned out to be \$125 billion lower than presumed. Outlays were only slightly affected by those economic developments.

The resolution assumed that real (inflation-adjusted) GDP would grow by 2.7 percent in fiscal year 2001 and by 3.2 percent in 2002. However, the economy fell into a recession in March 2001. As a result, growth in real GDP turned out to be just 0.8 percent in 2001 and 1.7 percent in 2002. The recession reduced the level of nominal GDP compared with that anticipated by the resolution and slowed the growth of wages and salaries, thereby reducing revenues from individual income taxes. Furthermore, lower-than-expected corporate profits caused corporate income tax receipts to decline.

Mandatory spending is also sensitive to changes in the economic forecast. Although such spending flows from the provisions of permanent laws, the spending for many mandatory programs is keyed to the economy. As a result,

spending on mandatory programs increased as the economy weakened. Overall, for economic reasons mandatory outlays turned out to be \$11 billion above the level assumed by the resolution—almost entirely because of increased spending on unemployment insurance.

Lower-than-anticipated interest rates drove projected outlays for net interest payments below the level assumed in the budget resolution. Most significantly, the resolution assumed that short-term interest rates would average 4.8 percent in 2002; however, as a result of actions by the Federal Reserve, those rates averaged just 1.7 percent. Those differences resulted in outlays for net interest of more than \$18 billion less than those anticipated in the budget resolution.

Differences Arising from Technical Factors

Differences arising from technical factors—that is, differences between budget resolution targets and actual outcomes that cannot be traced to legislation or CBO's economic forecast—are mostly found on the revenue side of the budget. In 2002, technical factors accounted for about \$183 billion less in revenues and \$18 billion more in outlays.

Some of that decrease in revenues may stem indirectly from economic factors (for example, decreased capital gains realizations may be related to the strength of the economy) or may result from economic factors that will be revealed in future revisions to economic variables; however, a full analysis of the 2002 results cannot be done now because information about sources of individual income typically lags behind the tax year by a couple of years. The additional increase in outlays attributable to technical differences resulted from slightly higher than expected spending on Medicaid, Medicare, unemployment insurance, and a host of other programs. In addition, debt-service costs were higher, mostly because of the technical factors that reduced projected revenues.

Comparing Budget Resolutions and Actual Outcomes from Fiscal Years 1980 Through 2002

Actual outcomes always differ to varying degrees from budget resolution targets. Over the 1980-1992 period, the deficit consistently exceeded the target in the resolution by amounts ranging from \$4 billion in 1984 to

Table B-2.

Differences Between Budget Resolution Targets and Actual Budget Totals for 2002

(In billions of dollars)

	Differences Arising from			Total Differences
	Policy Changes	Economic Factors	Technical Factors	
Revenues	-9	-125	-183	-317
Outlays				
Discretionary spending	50	2	*	52
Mandatory spending ^a	-1	11	13	23
Net interest	-3	-18	5	-16
Subtotal	46	-5	18	59
Effect on the Surplus				
Anticipated in the Resolution	-56	-119	-201	-376

Sources: Congressional Budget Office using data from House Con. Res. 83, Concurrent Resolution on the Budget for Fiscal Year 2002, adopted May 10, 2001; Office of Management and Budget.

Notes: Differences are actual outcomes minus budget resolution targets.

These comparisons differ from those in the chapters of this volume, where differences are measured relative to CBO's baseline projections.

* = between zero and \$500 million.

a. Includes offsetting receipts.

\$119 billion in 1990 (*see Table B-3*). That pattern changed in 1993, in part because spending for deposit insurance was substantially lower than expected. From 1994 through 2000, actual outcomes continued to be more favorable than the targets (with the exception of 1999, when there was no conference agreement on a budget resolution). However, in 2001, lower-than-expected revenues and higher-than-anticipated outlays combined to reduce the surplus to less than what was envisioned in the resolution. In 2002, those same factors caused a deficit instead of the envisioned surplus. The difference between the target and the outcome in 2002, both in monetary terms and as a percentage of outlays, was by far the largest of any year over the 1980-2002 period.

Differences Arising from Policy Changes

From 1980 through 2002, policy action or inaction (for example, the failure to achieve savings called for in a budget resolution) decreased the surplus or increased the deficit by an average of \$18 billion a year compared with the target. In only four of those years did policymakers trim the deficit by more, or add to it by less, than the resolution provided. The largest differences attributable to policy changes occurred in the past three years, decreasing the surplus by \$61 billion in 2000, \$95 billion in 2001, and \$56 billion in 2002 in comparison with the targets. By contrast, from 1980 through 1998, the differences ascribed to policy changes averaged less than \$10 billion a year.

Most of the impact stemming from legislation over the period was on the outlay side of the budget. On average, policy decisions added about \$16 billion a year to the spending totals. In fact, 1988 and 1991 were the only years in which legislative action held outlays below the budget resolution targets. The biggest difference due to policy changes was in 2000, when the effects of legislation increased outlays by about \$65 billion. The difference in 2002 was second largest: a \$46 billion increase. On the revenue side of the budget, the largest difference arising from policy changes occurred in 2001, when legislation reduced taxes by \$65 billion more than was anticipated by the resolution. By contrast, in 2002 that difference was a \$9 billion reduction.

Differences Arising from Economic Factors

Inaccuracies in the economic forecast over the 1980-2002 period had a small net effect on the cumulative variation between targets and actual outcomes for surpluses or deficits. However, large differences occurred in many years—deviations that were mostly negative before 1994 and positive more recently (other than in 2002). Until 1993, budget resolutions tended to use short-term economic assumptions that proved optimistic. The largest overestimates in the 1980s and early 1990s, not surprisingly, were in years marked by recession or the early stages of recovery—namely, in 1982 and 1983 and in the 1990-1992 period. In 2002, the same pattern was evident, resulting in a \$119 billion overestimate by the budget resolution.

In absolute terms (disregarding whether the errors were positive or negative), the typical difference in the surplus or deficit attributable to incorrect economic assumptions was about \$33 billion a year over the 1980-2002 period. Regardless of the direction of the errors in the forecasts, differences between the resolutions' assumptions and what actually happened in the economy primarily affected revenues.

Differences Arising from Technical Factors

Technical factors accounted for differences between budget resolution targets and actual surpluses or deficits that averaged \$6 billion a year from 1980 to 2002. In absolute terms, however, such differences caused the targets to be off by \$42 billion, on average. Overall, those deviations were about equal on the revenue and outlay sides of the budget.

The magnitude and causes of the differences ascribed to technical factors have varied over the years. On the revenue side, technical misestimates were generally not very great through 1990, but the budget resolutions significantly overestimated revenues in 1991, 1992, and 2002, when tax collections were weaker than economic data suggested. The difference was particularly pronounced in 2002, when, for technical reasons, revenues came in \$183 billion lower than the budget resolution anticipated.

Table B-3.

Differences Between Budget Resolution Targets and Actual Budget Totals, 1980-2002

(In billions of dollars)

	Differences Arising from			Total Differences	Total Differences as a Percentage of Actual Outcomes
	Policy Changes	Economic Factors	Technical Factors		
Revenues					
1980	6	8	-4	11	2.1
1981	-4	5	-13	-11	-1.8
1982	13	-52	-1	-40	-6.5
1983	-5	-58	-3	-65	-10.8
1984	-14	4	-4	-13	-2.0
1985	*	-20	3	-17	-2.3
1986	-1	-23	-2	-27	-3.5
1987	22	-27	7	2	0.2
1988	-11	4	-17	-24	-2.6
1989	1	34	-8	26	2.6
1990	-7	-36	9	-34	-3.3
1991 ^a	-1	-31	-24	-56	-5.3
1992	3	-46	-34	-78	-7.1
1993	4	-28	3	-20	-1.7
1994	-1	12	4	15	1.2
1995	*	16	1	17	1.3
1996	-1	24	12	36	2.5
1997	20	44	46	110	7.0
1998	-1	62	59	120	7.0
1999	n.a.	n.a.	n.a.	n.a.	n.a.
2000	3	78	68	149	7.4
2001	-65	25	26	-14	-0.7
2002	-9	-125	-183	-317	-17.1
Average	-2	-6	-2	-10	-1.6
Absolute Average ^b	9	35	24	55	4.4
Outlays					
1980	20	12	16	48	8.1
1981	25	6	16	47	6.9
1982	1	24	8	33	4.4
1983	18	*	8	26	3.2
1984	1	7	-18	-9	-1.1
1985	23	-5	-13	5	0.5
1986	14	-12	20	22	2.2
1987	7	-12	13	8	0.8
1988	-2	12	12	22	2.1
1989	17	14	12	43	3.8
1990	13	13	59	85	6.8
1991 ^a	-19	1	-22	-40	-3.0
1992	15	-21	-60	-66	-4.8
1993	16	-19	-90	-92	-6.5
1994	10	-9	-36	-35	-2.4

(Continued)

Table B-3.
Continued

(In billions of dollars)

	Differences Arising from			Total Differences	Total Differences as a Percentage of Actual Outcomes
	Policy Changes	Economic Factors	Technical Factors		
1995	2	17	-14	6	0.4
1996	25	-24	-29	-28	-1.8
1997	15	7	-43	-21	-1.3
1998	5	-9	-37	-41	-2.5
1999	n.a.	n.a.	n.a.	n.a.	n.a.
2000	65	-1	-10	54	3.0
2001	30	-1	*	29	1.6
2002	46	-5	18	59	2.9
Average	16	*	-9	7	1.1
Absolute Average ^b	18	11	25	37	3.2
Surplus or Deficit (-)^c					
1980	-13	-4	-19	-36	-6.1
1981	-28	-1	-29	-58	-8.6
1982	12	-76	-9	-73	-9.8
1983	-22	-59	-11	-92	-11.4
1984	-15	-3	14	-4	-0.5
1985	-23	-15	16	-22	-2.3
1986	-16	-11	-22	-49	-4.9
1987	15	-15	-6	-6	-0.6
1988	-9	-8	-29	-46	-4.3
1989	-17	20	-20	-17	-1.5
1990	-20	-49	-50	-119	-9.5
1991 ^a	19	-32	-2	-15	-1.1
1992	-12	-25	26	-11	-0.8
1993	-12	-9	93	72	5.1
1994	-11	21	40	50	3.4
1995	-2	-2	15	11	0.7
1996	-25	48	40	63	4.0
1997	5	37	89	131	8.2
1998	-7	71	97	160	9.7
1999	n.a.	n.a.	n.a.	n.a.	n.a.
2000	-61	79	77	95	5.3
2001	-95	26	26	-43	-2.3
2002	-56	-119	-202	-376	-18.7
Average	-18	-6	6	-17	-2.1
Absolute Average ^b	22	33	42	70	5.4

Source: Congressional Budget Office.

Notes: Differences are actual outcomes minus budget resolution targets.

Differences are allocated among the three categories soon after a fiscal year ends. Later changes in economic and tax data are not reflected in those allocations.

* = between -\$500 million and \$500 million; n.a. = not applicable (there was no budget resolution in 1999).

a. Based on the budget summit agreement for fiscal year 1991 (as assessed by CBO in December 1990).

b. The absolute average disregards whether the differences are positive or negative.

c. In the case of the surplus or deficit, total differences are calculated as a percentage of actual outlays.

From 1997 through 2001, revenues were much higher than the budget resolution targets. The individual income tax was the source of most of those technical discrepancies, primarily because of higher realizations of capital gains, unexpected increases in the effective tax rate, and higher reported incomes. Greater realizations of capital gains most likely stemmed from upturns in the prices of stocks and the volume of stock transactions. The unexpected rise in the effective tax rate was largely due to a disproportionate increase in income among taxpayers taxed at the highest marginal rates.

Misestimates arising from technical factors also show up on the outlay side of the budget. Through the mid-1980s, discrepancies in estimating receipts from offshore oil leases and spending on farm price supports, defense, and entitlement programs were the dominant technical differences. In addition, in the early 1990s, during the savings and loan crisis, outlays for deposit insurance were a major source of discrepancies attributable to technical factors. In recent years, technical differences between estimates of outlays and actual outlays have been spread among a variety of programs. They were quite small in 2000 and 2001—within \$10 billion and near zero, respectively—but grew to \$18 billion last year.

Differences as a Percentage of Actual Revenues or Outlays

Because the federal budget has grown considerably since 1980, differences between the revenue and spending levels in the budget resolutions and actual outcomes over the 1980-2002 period may be best compared as a percentage of total revenues or outlays. The total difference for revenues for 2002, at 17.1 percent below the budget resolution target, was considerably greater than the absolute average of 4.4 percent. Outlays in 2002 were 3.0 percent above the budget resolution target—slightly below the 3.2 percent absolute average difference for the 1980-2002 period.

The size of the total difference between actual surpluses or deficits and the surpluses or deficits anticipated in budget resolutions depends in large part on whether the differences for revenues and outlays offset each other. For years in which the discrepancies for revenues and outlays affected the surplus or deficit in opposite ways, the total difference dropped to as little as 0.5 percent of actual outlays. But in other years, the discrepancies for both revenues and outlays affected the surplus or deficit in the same way. Indeed, from 1980 to 2002, the differences between estimates of revenues and outlays in the budget resolutions and the actual amounts went in the same direction relative to the surplus or deficit in 13 years. In 2002, the actual deficit was below the surplus anticipated in the budget resolution by an amount equal to 18.7 percent of actual outlays—much greater than the 5.4 percent absolute average over the 23-year period.